SEC84

From:	Jake Brukhman <jake@coinfund.io>
To:	Hayeon Kim <hayeon@kik.com>
CC:	Aleksandr Bulkin <alex@coinfund.io>;Alexander Felix <felix@coinfund.io>;Erin Clift <erin@kik.com>
Sent:	4/4/2017 2:10:59 AM
Subject:	Re: A few quick questions

Hi Hayeon,

On the bullets:

- This is an open question whether fiat should or should not be accepted and may have regulatory consequences if it does. Namely, my question to a compliance specialist would be whether accepting fiat gets you into FinCEN/MSB/NYBitLicense territory (I don't know). Most token sales are crypto-only for remittance. Correct, this is referring to the portal remittance. If you don't accept fiat, it will not be material for cryptoinvestors, but it will create barriers for mainstream users or Kik customers, who will need to buy crypto to participate. (The good news is it's easy to get it on Coinbase.)

- Same question to compliance specialist applies -- does this make me FinCEN/MSB regulated?

On off-chain:

- Then you would have to have your backend go directly to Ethereum, but this creates a number of risk factors: (1) you have to pay fees for each transaction, likely on behalf of each app user; (2) you have no recourse if there is an incorrect transaction or hack; (3) if Kik is a major success, you risk congesting the Ethereum network; (4) it's slower ...to name a few. We would highly recommend considering an off-chain system.

On securities regulation, and keeping in mind that I am not a lawyer and this is by no means legal advice:

- You don't want your offering to be a securities offering, as that comes with a huge regulatory burden and expense (it's essentially like taking your company public). On the other hand, unregistered public securities offerings are not legal in the US.

- In the case of a community currency, there is a good basis to argue that this is not a security. You're just selling units of property that you created that are used for a particular purpose in your app. Ultimately, this is the central question for decentralized crowdfunding, and the SEC has not given guidance or made any enforcement actions so far against these sales. Whether or not the SEC does in the future, some companies have defensively structured offshore and (in some cases) blocked US access to lower this risk.

- Your regulatory risk here all depends on the nuances of the particular currency, integration with your product, jurisdiction, and corporate and sale structure. This is a question for a lawyer.

Hope that helps.

Best,
Jake

On Mon, Apr 3, 2017 at 9:52 PM, Hayeon Kim <hayeon@kik.com> wrote:
Sorry guys - one add to the others below.

What are the alternatives to the off chain integrations you have included in the additional research doc you have prepared. For example, if we didn't have a backend system in house what would we integrate with "on chain."

Thanks, hayeon

On Mon, Apr 3, 2017 at 9:34 PM, Hayeon Kim <hayeon@kik.com> wrote:
Re securities classification of the sale - what are the risks or issues around why people would want to avoid this? Is this because of SEC reporting requirements, additional tax implications, etc? And if it's not classified as a security, what would it be classified as?

Can you guys please provide me with a bit more detail on:

- Remittances to the sale - you mentioned that a lot of crowdsales enable investors to buy into the sale using a fiat currency. If this were to be enabled this would only happen off the crowdsale portal and not impact we do in-app, correct? What are the issues with us enabling or not enabling this? Are you suggesting that if we don't do this, we could impact the raise amount?
- Redemption to fiat currencies in-app -- other than apple issues, what other regulatory issues would there be?

Thanks, hayeon

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